

Highlights of 2018

Economic and Financial Environment



Economic growth in Hong Kong softens amid tighter financial conditions and heightened uncertainty due to rising US-China trade tensions. The local stock market ends the year lower, and the residential property market moderates in the second half of the year.

The Hong Kong banking sector remains resilient. The capital and liquidity positions of the banking sector are strong and asset quality remains good. Moreover, profitability keeps on improving.

Monetary Stability



The Hong Kong dollar eases against the US dollar, and the weak-side Convertibility Undertaking is triggered multiple times during the year. Nevertheless, the Hong Kong dollar exchange market continues to function in an orderly manner and market confidence in the Linked Exchange Rate System remains strong.

The Hong Kong dollar interest rates broadly pick up. The Base Rate in Hong Kong is adjusted upwards by a total of 100 basis points to 2.75%, in tandem with the increase in the target range for the US federal funds rate.

Banking Stability



The HKMA continues to focus its supervisory efforts on reviewing the effectiveness of banks' liquidity and credit risk management systems, steps up the supervision of banks' technology and operational risk management, and strengthens the resilience of banks' anti-money laundering and counter-financing of terrorism systems through harnessing new technology and risk-based approaches. A revised *Guideline on Authorization of Virtual Banks* is published to facilitate the establishment of virtual banks in Hong Kong.

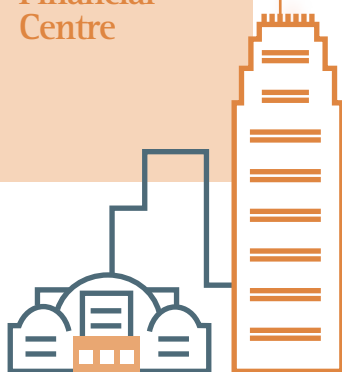
On conduct supervision, the HKMA takes further steps to enhance the supervision of banks' sales practices for investment and insurance products, facilitate access to barrier-free banking services to customers with disabilities, and promote a customer-centric corporate culture.

On the prudential policy side, substantial progress is made on the local implementation of international regulatory standards.

On operationalising the resolution regime, significant progress is made in resolution standard-setting, resolution planning, and building up the HKMA's operational capability as a resolution authority.

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International Financial Centre



Good progress is made on the seven initiatives that are aimed at facilitating the development and use of fintech in the banking and payment industries, including the successful launch of the Faster Payment System. Hong Kong maintains its leading position in offshore renminbi business, with major enhancements made to the mutual market access schemes with Mainland China.

Enormous effort is put on opening up new opportunities to further enhance the competitiveness of Hong Kong's financial platforms, including investment fund regimes, infrastructure financing, corporate treasury centres and green bond market.

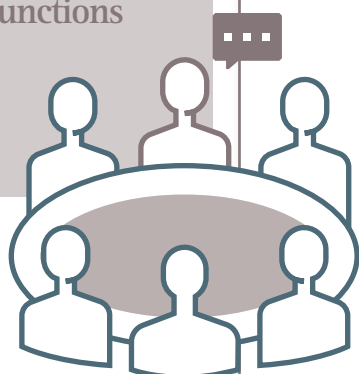
Reserves Management



Despite the challenging investment environment, the Exchange Fund records an investment income of HK\$10.9 billion in 2018.

Efforts on investment diversification continue, especially through the Long-Term Growth Portfolio (LTGP). The LTGP has recorded an annualised internal rate of return of 12.9% since its inception in 2009.

Corporate Functions



The HKMA maintains effective communication with the community and the market through the media, website, public education programmes and other various channels to facilitate public understanding about its policies and operations.

The HKMA continues to improve corporate governance by supporting professional development of staff, instituting rigorous financial discipline and enhancing IT security to cope with challenges arising from the implementation of new initiatives and the increasing complexity of work.